ECONOMIC IMPACT OF NON-PROFIT ARTS ORGANIZATIONS IN BRITISH COLUMBIA

A Report by the Centre for Public Sector Studies,
University of Victoria

LEGISLATIVE LIBRARY
WITHDRAWN
TORONTO
MAY 15 1981
RECEIVED

Province of British Columbia
Ministry of Provincial Secretary and Government Services

ECONOMIC IMPACT OF NON-PROFIT ARTS ORGANIZATIONS IN BRITISH COLUMBIA

A Report
by the
Centre for Public Sector Studies
University of Victoria
for
Cultural Services Branch
Ministry of Provincial Secretary and Government Services

1979

Canadian Cataloguing in Publication Data
University of Victoria (B.C.) Centre for Public Sector Studies.
Economic impact of non-profit arts organizations in British Columbia.

Bibliography: p.
ISBN 0-7719-8211-9

1. Arts - Economic aspects - British Columbia. 2. Art societies - British Columbia. 3. Arts - British Columbia - Finance. 4. Art and state - British Columbia. I. British Columbia. Cultural Services Branch. II. Title.

NX705.5.C32B75 338.4'7'7009711 C79-092159-6

101-03532/

TABLE OF CONTENTS

	Page
List of Tables	ii
Preface	iii
1. Introduction	1
2. The Survey	4
3. Expenditures and Revenues of Sampled Institutions	6
4. Estimated Economic Impact of Non-Profit Arts Organizations in British Columbia, 1977-78	13
(a) Direct Spending by 22 Arts Organizations	13
(b) Audience Expenditures	13
(c) Estimated Direct Expenditures of Non-Profit Arts Institutions and Their Audiences, British Columbia, 1977-78	13
(d) Economic Impact of Non-Profit Organizations in British Columbia, 1977-78	16
5. Taxes	16
6. Intangible Impacts	18
References	21
Appendices	22
Bibliography	26
- Economic Impact Studies	26
- General References	29

LIST OF TABLES

Table No.		Page
1	Summary Table - Economic Impact of Non-Profit Art Organizations in British Columbia, 1977-78	3
2	Organizations Constituting Sample, by Form of Art and Size	5
3	Statement of Expenditure and Revenue for Twenty-two Art Organizations in British Columbia, 1976-77 to 1980-81	8
4	Statement of Expenditure and Revenue for Ten Largest Art Organizations in British Columbia, 1976-77 to 1980-81	9
5	Statement of Aggregate Expenditure and Revenue for Twelve Intermediate Size Art Organizations in British Columbia, 1976-77 to 1980-81	10
6	Rates of Growth of Expenditures and Revenue for Twenty-Two Art Organizations in British Columbia, 1976-77 to 1980-81	11
7	Payments and Revenues as a Percentage of Total Expenditure for Twenty-Two Art Organizations in British Columbia, 1976-77 to 1980-81	12
8	Associated Costs of Attendance at Selected Art Events in Canada and the U.S.	14
9	Total Direct Expenditures 1977-78	15
10	Summary of Direct Impact of Arts Spending in British Columbia, 1977-78	17
11	Estimated Total Economic Impact of Non-Profit Art Spending in British Columbia, 1977-78	17
12	Revenues Accruing Directly to Different Levels of Government as a Proportion of Total Government Grants made to Art Institutions	19

Preface

It has long been recognized that there is a tendency toward perpetual financial crisis in many artistic activities. In study of the economics of the performing arts, "Baumol's disease" is the label attached to the tendency for costs of production in artistic enterprises to increase faster than costs elsewhere in the economy, and probably also to outrun ready sources of finance. The origin of this tendency lies in the very high wage element in total costs, and the limited opportunity for technical progress in artistic performances themselves.

Financial difficulties for artistic activities dependent on government subsidy are of course more critical in a period where accountability, financial control, and expenditures restraint are again the watchwords in public administration. All government outlays - and particularly "frills" like public subsidies to enterprises which do not appear commercially viable - come under unusual pressure at such times.

Yet at the same time the growing importance of non-market or "third sector" activities is increasingly recognized in this country and elsewhere. The need for community activities providing an outlet for time increasingly freed from work, and serving to nourish and sustain a sense of community values in an increasingly restless world, is argued with growing force.

It is not the role of this study to support the case for government support of the arts, either on the basis of fundamental cultural goals or on grounds of "market failure", "externalities", or the "optional provision of public goals". There are many such arguments suggesting that the test of commercial viability should not be all that matters in deciding upon community support of artistic activity. But the terms of reference for this study relate simply to the economic impact of the expenditures undertaken by arts organizations supported by the B. C. Cultural Fund, and this study was confined to an estimation of these impacts.

This work was supported by the Cultural Services Branch of (at that time) the Ministry of Recreation and Conservation, and carried out by Professors A.R. Dobell and B. Carin and Mr. C.H. Barton of the Centre for Public Sector Studies of the University of Victoria. Responsibility for this work rests solely with the authors; views expressed are not necessarily endorsed by the Cultural Services Branch or the University of Victoria.

1. Introduction

Although it is not the primary function of the arts to create jobs and incomes or to stimulate the economy, the arts do generate tangible and intangible economic impacts. This section outlines an attempt to determine what economic impacts occur as a result of non-profit arts activities in British Columbia and to measure, where possible, these impacts on the Province's economy.*

There are, of course, a number of different impacts on the economy and the community, many of which are cited in justifying public subsidy to arts activities. But identifying the possibility of such impacts, and measuring their extent, are two different tasks.

In the present analysis, the emphasis is on the income generation and job creation effects of artistic activities. The argument, in brief, is that public subsidies to the arts are directly offset in large part by corresponding increases in government revenues, and are indirectly further offset by secondary income effects rippling outwards from the initial expenditure. The public or budgetary cost is therefore much less than the direct subsidy.

Moreover the benefits as a direct job creation program might be argued to be more immediate and more effectively targeted than many other programs with similar objectives. Incomes generated by subsidies to the arts go in the first instance to recipients at the low end of the income scale, and to activities with a very low "leakage" of income outside the province through extensive purchases of imported goods or equipment.

This narrowly economic argument is not, of course, to suggest that the motive for subsidy to the arts is commercial, or arises from a desire for effective programs of direct job creation. The motives for support to the arts, or rationale for public subsidy, remain as they always have been:

- promotion of a cultural base for the society, which confers general intangible benefits beyond the capacity of market calculations to measure;
- community or national prestige;
- improved access for all, particularly the young, to encourage the formation of tastes and the education of children, toward a richness of cultural understanding that is seen as a general public good;
- attraction of industry or tourism;
- stimulus to artistic innovation, to maintain and extend a cultural tradition for future generations.

The present analysis does not attempt to measure the degree of achievement of these goals, or assess directly the extent to which they are promoted by public subsidy. What it does claim is that the real cost of pursuing these goals through public subsidies is, at the present time of substantial unemployed resources, very much less than the budgetary figures would suggest and, indeed, that these outlays in support of the arts represent a useful public investment on purely commercial grounds, apart from the cultural and artistic benefits.

---

*Only the impacts of non-profit art organizations funded by the B. C. Cultural Fund are measured.

This argument is summarized in Table 1, which tabulates the payments in 1977/78 by the organizations surveyed, and estimated audience spending associated with attendance at their performances. The resulting total expenditure of $23 million is scaled up to an estimated total of $29 million covering all B. C. organizations supported by Cultural Services Branch grants.

For reasons discussed in the text it appears appropriate to apply to this estimate a conventional "income multiplier"* of somewhere between 2 and 3. Taking a value of 2.5 for illustration yields an income stream of some $72 million associated with the spending of arts organizations and their audiences in British Columbia. Stemming from this income stream would be estimated provincial revenues around $2.4 million, or over 86% of the original budgetary outlays for subsidies to the organizations under study. These figures relate only to the operating expenditures of the organizations. We have not attempted to estimate the impact of any capital expenditures.

At an average provincial wage of around $16,000/year, the job content arising from this estimated income stream generated by the activities of these organizations may be calculated as close to 4,500 man-years. Thus roughly speaking, one might argue that even as a straight job creation measure, Cultural Services subsidies compare favourably with other direct employment programs. Cultural Services subsidies, with $383,000 being the net budgetary outlay, yields a cost of roughly eighty-five dollars per job.

There are, of course, many limitations to this form of analysis. The basic point is that we assume that the Cultural Fund grant is the difference between operating viability and simply going out of business -- that the Cultural Fund money has a great deal of leverage. Of course, leverage declines as provincial funding moves into lines of activity which generate less revenue and less private or federal contributions. It is not appropriate to argue that provincial funding levels should be increased -- the job content and net provincial budgetary outlay per job figures of Table 1 do not apply to increases in funding.

However, in an economy with substantial unemployed human resources (though a possible scarcity of physical capital or skilled labour in some lines of activity) and a general budgetary surplus on provincial government transactions, it would seem difficult to contest the validity of the general line of argument leading to the estimates set out above, which imply that current levels of funding are quite defensible on economic grounds.

---

* The "multiplier" is defined on page 20.

TABLE 1

SUMMARY TABLE

Economic Impact of Non-Profit Art Organizations
in British Columbia, 1977-78

For 22 organizations surveyed:		
Payments to individuals	$8,356,000	
Direct payments to government	341,000	
Payments for goods and services	4,233,000	
Total expenditures by organizations		$12,930,000
Audience spending (see Table 8)		10,292,000
Total direct expenditures associated with organizations surveyed		$23,222,000
Estimated totals - funded organizations*		$29,000,000
Estimated direct and indirect income generation**		72,600,000
Cultural Fund grants		2,831,000
Estimated direct and indirect provincial revenues (see Appendix C - p. 25) ($979,097 x multiplier of 2.5)		2,448,000
Net Provincial Government Budgetary Outlay (2,831 minus 2,343)		383,000
Job content of direct and induced spending*** ($72,600/$16)		4,500 man-years
Direct net provincial budgetary outlay per job ($383,000/4,500)		$85/ man-years

* Using a factor of 1.25 to scale up to a provincial total. The 22 organizations only receive about 80% of Cultural Fund outlays (p. 13). This table does not include the impact of organizations which do not receive funding.

** Assuming an income multiplier of 2.5 (see page 16).

*** Job content determined by dividing total income generated by average B.C. salary (assumed to be $16,000).

2. The Survey

To obtain information on expenditures on arts activities, a questionnaire was designed and mailed to 57 of the largest non-profit arts organizations in B. C. Organizations were asked to provide general information on their operations and specific financial data for the period 1976-77 to 1980-81. Detail on expenditures was divided into three categories: payments to individuals, payments to governments, and payments for goods and services. Similarly, questions were structured to yield data on earned revenue, government grants, and donations.

Because institutions receiving grants of $16,000 or more from the B. C. Cultural Fund account for more than 80 percent of the total funds allocated in 1977-78, a lower bound of $16,000 was used as a criterion for choosing the sample. Nineteen institutions who fulfilled the stated criterion and returned the questionnaire were selected for analysis. To augment this group, data on three large organizations unable to complete the questionnaire were compiled separately and included in the tabulations from the sample.*

The 22 organizations listed in Table 2 comprise the sample. Taken collectively, they constitute a representative sample for analysis. Except for 3 relatively large institutions situated outside the Lower Mainland, all organizations meeting the stated criterion are located in the Greater Vancouver and Victoria regions.**

---

* Information on these institutions - The Vancouver Opera, Festival Concerts Society and the Surrey Art Gallery - was available from the Cultural Services Branch files. Projections were computed using conservative rates of growth.

** The Western Canada Theatre, Courtenay Youth Music Centre and Shawnigan Summer School of the Arts are the only organizations receiving grants in excess of $16,000 that are located outside the Lower Mainland. At the time of analysis, questionnaires from this group and the Victoria College of Art had not been received. Consequently, they could not be included in the sample. In some cases, art activities may have large impacts on small local economies. However, it was beyond the scope of this study to estimate the economic impact of such activities on small communities. The absence from the sample of the three organizations cited above is less critical for the general analysis.

TABLE 2

ORGANIZATIONS CONSTITUTING SAMPLE BY FORM OF ART AND SIZE*

	Ten Largest Organizations	Twelve Intermediate Size Organizations
Music	Festival Concerts Overture Concerts Vancouver Opera Vancouver Symphony Victoria Symphony	
Theatre	Bastion Theatre Vancouver Playhouse	Arts Club Carousel Theatre City Stage New Play Centre Tamahnous Theatre Vancouver East Cultural Centre West Coast Actors' Society
Dance	Anna Wyman	Pacific Ballet
Visual Arts	Art Gallery of Victoria Vancouver Art Gallery	Burnaby Art Gallery Surrey Art Gallery
Training resource		Community Music School of Vancouver Victoria Conservatory of Music

*Size determined by amount of British Columbia Cultural Fund allocated and number of artists employed.

3. Expenditures and Revenues of Sampled Institutions

Table 3 depicts expenditures and revenues for the 22 art organizations. These institutions spent over $8.3 million on gross payments to individuals in 1977-78. This figure includes full and part-time artistic, technical and administrative salaries and wages and income taxes withheld on behalf of employees. Direct payments of $341,435 were made to governments in the form of municipal property taxes and Canada Pension Plan and U.I.C. contributions. Because most groups either rented space or occupied municipally owned tax-exempt property, a relatively small amount was paid directly in property taxes. (No attempt was made to impute a property tax component within rent paid.) These same organizations expended $4.2 million for goods and services. This figure represents purchases for equipment and materials and payments for rent, utilities, advertising, printing and promotional and legal services. The 22 art institutions made total expenditures of $12.9 million in 1977-78.

In aggregate, the organizations realized approximately $5.6 million in earned revenue. This was derived from admissions, sponsorship guarantees and concession sales. Government grants from all levels accounted for $5.2 million, almost as important a source of revenue as earned revenue.* Corporate, foundation and individual donations totalled more than $1.3 million. Total revenue of $12.1 million was substantially lower than expenditures, leaving an operating deficit or income gap of $802,154.

Tables 4 and 5 break this information down into financial data for the ten largest and twelve intermediate size organizations. Of the groups sampled, the ten largest accounted for three-quarters of total expenditures. Concomitantly, they received 78 percent of all government grants and 83 percent of donations. It is interesting to note that even though the largest organizations received the vast majority of grants and private donations, the largest groups reported a $806,989 deficit while the intermediate twelve operated with a small surplus.

In 1977-78, expenditures and revenues increased significantly over the previous year; total expenditures in nominal terms grew an average of 24.7 percent and revenue an average of 19.6 percent (see Table 6). This increase was partially attributable to high rates of inflation and higher union salaries compared to the previous year.** Estimates for 1978-79 indicate a marked reduction in rates of growth. Total expenditures are estimated to increase by 5.2 percent while revenue is expected to grow at a rate of 10.2 percent. Payments for goods and services are projected to remain similar to those of the previous year. Conversely, donations are expected (perhaps somewhat optimistically) to increase substantially. Total expenditure and revenue projections for 1979-80 and 1980-81 indicate increases of approximately 10 percent per annum.

Table 7 depicts payments and revenues as a proportion of total expenditures.***

---

* Government support through provision of space and facilities or exemption from tax is not taken into account in these figures, which thus understate the overall size of the government contribution.

** The fact that the Surrey Art Gallery came into full operation in 1977-78 does not account for the large increase in expenditures and revenues.

*** Appendix A breaks Table 7 into corresponding tables for the 10 largest and next 12 organizations within the sample. Perhaps not surprisingly, the smaller organizations show a greater fraction of payments (by about 5 percentage points) to individuals and a lower fraction for goods and services. Further, the degree of financing through earned revenues is significantly higher for the smaller organizations, with both government grants and private donations significantly lower. Yet, as observed above, these groups operate with a small surplus.

The distribution of payments to individuals, governments and for goods and services is expected to remain unchanged over the five years. Each year, payments to individuals represent easily the largest item of expenditure.

Earned revenue and grants from governments comprise similar proportions of total revenue and represent the greatest source of monies for the organizations. Although donations account for a smaller proportion of total revenue, projections indicate donations are expected to become a more important source of revenue. For the period investigated, aggregate statistics indicated these organizations either experienced or expect to realize operating deficits. By 1979-80 and 1980-81, revenues were forecast to represent 99.7 and 99.6 percent of total expenditures for those years, with a corresponding decrease in anticipated deficits.

TABLE 3
Statement of Expenditure and Revenue for Twenty-two Art Organizations in British Columbia, 1976-77 to 1980-81.
($000)

	1976-77	1977-78	1978-79*	1979-80**	1980-81**
Payments to individuals	6,798.7	8,356.0	8,968.4	9,818.6	10,791.7
Payments to governments	275.7	341.4	390.0	423.2	461.1
Payments for goods and services	3,294.0	4,232.6	4,247.0	4,730.0	5,196.2
TOTAL Expenditures	10,368.4	12,930.1	13,605.5	14,971.7	16,449.0
Earned revenue	4,574.1	5,554.3	5,905.9	6,439.1	7,065.9
Government grants	4,453.2	5,240.6	5,673.4	6,307.0	6,899.7
Donations	1,116.0	1,333.0	1,789.0	2,178.9	2,425.3
TOTAL Revenue	10,143.3	12,127.9	13,368.3	14,925.0	16,390.9
Surplus/Deficit	(225.1)	(802.2)	(237.2)	(46.7)	58.1)

*Estimate

**Projected

Source: Tabulations from completed questionnaires and Cultural Services Branch files.

TABLE 4

Statement of Expenditure and Revenue for Ten Largest Art Organizations in British Columbia, 1976-77 to 1980-81.

($000)

	1976-77	1977-78	1978-79*	1979-80**	1980-81**
Payments to individuals	4,982.9	6,111.8	6,398.4	6,827.5	7,419.8
Payments to governments	206.0	239.7	269.3	285.1	308.0
Payments for goods and services	2,701.7	3,295.0	3,216.1	3,526.9	3,874.9
TOTAL Expenditures	7,890.6	9,646.5	9,883.8	10,639.5	11,602.7
Earned revenue	3,203.6	3,647.6	3,856.7	4,130.4	4,495.6
Government grants	3,554.7	4,079.5	4,317.3	4,666.8	5,071.9
Donations	947.6	1,112.5	1,501.0	1,812.3	1,981.4
TOTAL Revenue	7,705.9	8,839.5	9,675.1	10,609.5	11,549.0
Surplus/Deficit	(184.7)	(807.0)	(208.7)	(29.9)	(53.8)

*Estimate

**Projected

Source: Tabulations from completed questionnaires and Cultural Services Branch files.

TABLE 5
Statement of Aggregate Expenditure and Revenue for Twelve Intermediate Size Art Organizations in British Columbia, 1976-77 to 1980-81.
($000)

	1976-77	1977-78	1978-79*	1979-80**	1980-81**
Payments to individuals	1,815.9	2,244.1	2,570.0	2,991.0	3,371.9
Payments to governments	69.8	101.7	120.7	138.1	153.1
Payments for goods and services	592.2	937.6	1,030.9	1,203.1	1,321.3
TOTAL Expenditures	2,477.9	3,283.5	3,721.6	4,332.2	4,846.2
Earned revenue	1,370.5	1,906.7	2,049.1	2,308.7	2,570.2
Government grants	898.5	1,161.1	1,356.1	1,640.2	1,827.7
Donations	168.4	220.6	288.0	366.5	443.9
TOTAL Revenue	2,437.4	3,288.4	3,693.2	4,315.5	4,841.9
Surplus/Deficit	(40.5)	4.8	(28.4)	(16.8)	(4.4)

*Estimate

**Projected

Source: Tabulations from completed questionnaires and Cultural Services Branch files.

TABLE 6

Rates* of Growth of Expenditures and Revenue for Twenty-Two Art Organizations in British Columbia, 1976-77 to 1980-81. (Percentage)

	1976-77	1977-78	1978-79**	1979-80***	1980-81***
Payments to individuals	-	22.9	7.3	9.5	9.9
Payments to governments	-	23.8	14.2	8.5	9.0
Payments for goods and services	-	28.5	0.3	11.4	9.9
TOTAL Expenditures	-	24.7	5.2	10.0	9.9
Earned revenue	-	21.4	6.3	9.0	9.7
Government grants	-	17.7	8.3	11.2	9.4
Donations	-	19.4	34.2	21.8	11.3
TOTAL Revenue	-	19.6	10.2	11.6	9.8
Surplus/Deficit					

*Fiscal years and reporting years were not the same for all organizations. Figures shown are the year-on-year percentage rate of increase for the fiscal year closest to the year shown over the previous fiscal year.

**Estimate

***Projected

Source: Tabulations from completed questionnaires and Cultural Services Branch files.

TABLE 7

Payments and Revenues as a Percentage of Total Expenditure
For Twenty-Two Art Organizations in B. C., 1976-77 to 1980-81.

	1976-77	1977-78	1978-79*	1979-80**	1980-81**
Payments to individuals	65.6	64.6	65.9	65.6	65.6
Payments to governments	2.7	2.6	2.9	2.8	2.8
Payments for goods and services	31.8	32.7	31.2	31.6	31.6
Earned revenue	44.1	43.0	43.4	43.0	43.0
Government grants	42.9	40.5	41.7	42.1	41.9
Donations	10.8	10.3	13.1	14.6	14.7
Total Revenue	97.8	93.8	98.3	99.7	99.6
Surplus/Deficit	(2.17)	(6.2)	(1.74)	(0.31)	(0.4)

*Estimate

**Projected

Source: Tabulations from completed questionnaires and Cultural Services Branch files.

4. Estimated Economic Impact of Non-Profit Arts Organizations in British Columbia, 1977-78

(a) Direct Spending by 22 Art Organizations

Art institutions generate a number of economic impacts on the economy. As Table 3 indicates, over $12.9 million was spent in 1977-78 by the organizations sampled. These expenditures on items such as salaries, wages, advertising, materials, supplies, equipment, props, sets, inventories, rent, maintenance, etc., represents the direct economic impact of the art organizations on the Provincial economy. However, to measure the total direct impact, expenditures related to attendance at art events must also be included. These are discussed in the next paragraphs.

(b) Audience Expenditures

Surveys have confirmed what is obvious from personal experience - that there are numerous costs associated with attendance at artistic events. During an outing, it is common for some patrons to spend money on restaurants, bars, transportation and parking. In addition, many attendees incur baby-sitting, coat checking, hairdressing and accommodation expenses. Depending on location, institutions and individual preferences, expenditures can vary greatly. For example in New York City, it has been estimated that on the average attendees spend 2.5 times their ticket prices on ancillary items, while in Philadelphia and Washington, D.C., the proportion of such costs to ticket prices (as estimated from survey data) amounted to .8 and 1.0 respectively.[1] In Baltimore, local audiences spent sums ranging from $3.85 to $15.65 per party per visit on meals, transportation, parking and baby-sitting.[2]

Without actually conducting an audience survey, it is difficult to determine costs associated with attendance in B. C. In order to estimate costs associated with art events in B. C., findings from other audience surveys* were used to approximate an average cost per attendee.

Visitors from outside the immediate region exert a disproportionate economic influence compared to local audiences because, as visitors, they encounter more expenses. The computed average costs in Table 8 account for local and out-of-region spending and depict costs for a wide range of art types and areas in North America. Averaging and inflating these values at a rate of seven percent per annum to 1978 yields an estimated expenditure of $7.54 on ancillary items in addition to ticket expenses.

During 1977-78, approximately 1,365,000 visits were made to the organizations sampled. Assuming attendees spent $7.54 each, then about $10.3 million would have been expended on ancillary services. Table 9 illustrates total direct expenditures for 1977-78 associated with the organizations sampled.

(c) Estimated Direct Expenditures of Non-Profit Art Institutions and Their Audiences, British Columbia, 1977-78

To determine the total economic impact of all non-profit art organizations, the sum of British Columbia Cultural Fund grants allocated to the sample of 22 institutions was related to total Cultural Funds dispersed to all organizations. Cultural Fund expenditures on non-profit societies amounted to approximately $2.8 million in 1977-78. Of this expenditure, the sampled groups received over $2.2 million or 80.41 percent of total funds. Assuming this 1.25 ratio remains constant, financial data was inflated by 1.25 to yield Provincial estimates. The same ratio was also used to inflate audience spending to reflect total audience outlays for B. C. organizations supported by the Cultural Fund.

---

*Identical costs were not always measured. While all studies included the cost of meals, drinks, transportation and parking, only some surveys accounted for baby-sitting, coat checking, hairdressing and accommodation expenses.

TABLE 8

ASSOCIATED COSTS OF ATTENDANCE AT SELECTED ART EVENTS IN CANADA AND THE U. S.

(in dollars)*

	1978
Royal Winnipeg Ballet - Manitoba (1972)	5.97
Le Theatre du Nouveau Monde - Quebec (1972)	6.32
Audience for the Performing Arts - Ontario (1974)	5.37
Survey of Audience at Performing Arts and Museums - Washington State (1974)	9.41
Guthrie Theatre - Minneapolis - St. Paul, Minnesota (1976)	7.24
San Francisco Ballet - California (1978)	11.25
8 Cultural institutions in Baltimore, Maryland (1976)	7.20
Average Cost of the Above	7.54

*1. Using an average inflation rate of 7 percent per annum to inflate figures to 1978 equivalent dollar values.

2. Ticket prices are not included in costs.

TABLE 9

TOTAL DIRECT EXPENDITURES 1977-78 OF SURVEYED ORGANIZATIONS		
Payments to individuals	$8,355,973	
Direct payments to government	341,435	
Payments for goods and services	4,232,642	
Total Expenditures by organizations		$12,930,050
Audience Spending (Estimated)		10,292,100
Total Direct Expenditures associated with organizations surveyed		$23,222,150

Thus it is estimated that all non-profit art organizations supported by the Cultural Fund in B. C. expended around $16.2 million and that audiences spent about $12.8 million on activities directly related to these art functions. Thus the total direct economic impact of non-profit art activities was around $29 million in 1977-78.

(d) Economic Impact of Non-Profit Art Organizations in British Columbia, 1977-78

Direct expenditures depicted in Table 10 do not indicate the total economic impact. Initial or direct expenditures generate second and third order impacts - the so-called multiplier effects - as money circulates throughout the economy. This results because businesses have to make purchases of their own in order to support the demands for the goods and services on which arts organizations make their expenditures.* The "multiplier" is determined by the percentage of money remaining in the local or provincial economy and re-spent at each stage of this process.

It is extremely difficult to derive estimates of multipliers; few reliable Canadian studies exist which have attempted to do so. No attempt was made to construct a model to estimate a multiplier for this report. Instead, based on a wide range of estimates derived from other studies, a range of possible multipliers was adopted for illustrative purposes.

Estimates of multipliers vary from place to place and study to study. For example, in the seven studies discussed in the Theatre Communication Group Newsletter, multipliers varied from 1.1 to 12.0.[3] In Canadian and U. S. studies reviewed and listed in Appendix B, multipliers ranged between 2.0-3.0. Applying this range of multipliers to direct art expenditures of $29 million, the total economic impact of non-profit art organizations in B. C. ranges from $58 million to $87 million (see Table 11). Employing a multiplier value of 2.5 for illustration, the total impact of non-profitart activities on the Provincial economy is estimated to be on the order of magnitude of $72.6 million. In light of the very high wage component and very low import leakage outside the Province, this estimate might be taken to be relatively conservative.

5. Taxes

The cost of government grants is offset to some extent by monies which accrue to government in the form of taxes and revenues paid by the art organizations. Table 12 shows the amount returned to government expressed as a proportion of grants dispersed. For every dollar of Provincial support, an estimated 34 cents is directly returned in the form of taxes on the expenditures of arts organizations and attendees. Applying a multiplier of 2.5 to reflect secondary incomes generated, it can be argued that direct budgetary outlays for subsidies to the arts are almost completely offset, at least in times of general unemployment, by tax revenues on direct expenditures and on related expenditures stimulated as a result of direct expenditures.

---

*If an art organization spends $5,000 on supplies and in turn the supplier spends that amount on something else, the economic impact would be $10,000. If everyone down the line kept spending the total amount, the multiplier would be infinite. However this does not happen because some proportion of the total is spent outside the region or province for imported goods or services and thus leaves the local economy while some portion is saved by households, government, or the business sector and thereby removed from the expenditure flow in the economy.[4]

TABLE 10

Summary of Direct Impact of Arts Spending by Funded Organizations in B. C., 1977-78*	
Institution Expenditures	$16,162,500
Audience Spending	$12,865,000
Total Direct Impact	$29,027,500

*Using a scale factor of 1.25 applied to the results (Table 9) of the 22 organizations surveyed. The figures in this Table represent the impact of those organizations supported by the Cultural Fund.

TABLE 11

ESTIMATED TOTAL ECONOMIC IMPACT OF NON-PROFIT ART SPENDING IN BRITISH COLUMBIA, 1977-78		
Total Direct Impact	Multiplier Value	Total Impact
$29,027,500	2.0	$58,055,000
$29,027,500	2.5	$72,568,750
$29,027,500	3.0	$87,082,500

6. Intangible Impacts

It is well recognized that arts activities contribute to the overall attributes of an area. Besides creating a wide range of direct and indirect economic impacts, the arts generate spinoff effects which are not easily quantified. There is some evidence that art activity positively influences location decisions.* Frequently, people find areas offering artistic opportunities attractive places to live. For this reason, it has been suggested that the availability of arts helps regions recruit and retain personnel.**

Art activities stimulate tourism which is British Columbia's third largest industry. In 1977, the 10.7 million people who visited or toured the Province generated 1.3 billion dollars.*** Although figures are not available, the performing and visual arts are presumably responsible for many tourist visits and hence for a significant component of revenues from tourism.

In addition, investment in the arts can provide the necessary impetus for community development, the revitalization of neighbourhoods, the conservation of heritage buildings. These endeavours increase property values which in turn increases taxes. Beyond its economic value, the arts have a generally acknowledged social value, fostering pride and identity, encouraging involvement and self-improvement. They also provide educational and entertainment opportunities to a wide range of people.

It is impossible to ascertain the total value and economic impact of non-profit art organizations in the Province. However, it is evident that there is a wide range of tangible and intangible benefits. What has been argued here is that these benefits are achieved at a real economic cost far less than indicated by budgetary estimates of direct subsidies, and indeed with economic benefits through job creation and income generation more than sufficient to offset directly the budgetary outlays entailed. The value of artistic endeavour, and the allocation of resources to alternative artistic activities obviously must continue to rest on judgments as to intrinsic artistic merit. But economic calculation suggests that in present economic circumstances, provincial subsidies to arts organizations can be justified as a sound investment in direct job creation, quite apart from the intangible benefits which may result.

Finally, there is one obvious reservation arising out of the apparent "free lunch" or "bootstrapping" involved in the income multiplier process. If subsidies to the arts are so nearly self-financing, why shouldn't we argue for $20 million, or $200 million, or $200 billion? Doesn't accountability for results matter at all in this peculiar "economic" calculation?

The answer, of course, is that accountability remains critical in the handling of subsidies to the arts just as in other public funds. None of the above is an argument to continue to bail out withannual subsidies groups which cannot manage their funds or justify their programmes. Searching, critical, hard-headed scrutiny by objective and rigorous appraisers remains the essential feature of the granting process. But the test should be artistic merit, and for this assessment bodies like the Cultural Services Branch and the Arts Board must remain responsible.

---

*In 1972, when the A.D. Little Company analysed why businesses relocated, it was found that "environment for culture" was a "major attraction" to firms contemplating moving.[5]

**Firms employing highly trained, salaried and mobile personnel and individuals possessing these characteristics, attach considerable importance to quality of life considerations in location decisions.[6]

***They spent an average of $27 per day on goods and services.[7]

TABLE 12

REVENUES ACCRUING DIRECTLY TO DIFFERENT LEVELS OF GOVERNMENT AS A PROPORTION OF TOTAL GOVERNMENT GRANTS MADE TO ART INSTITUTIONS 1977-78

	Amount Granted	Amount Returned	% Returned
Federal and Municipal	$2,935,809	$1,273,962	43
Provincial	$2,304,750	$ 783,278	34
Total	$5,240,559	$2,057,240	39

Source: Questionnaire survey.

*See Appendix C for calculations.

The above analysis does not argue for handing out subsidies to the arts because it creates jobs or generates income. It does not argue that public dollars thrown at performing artists are miraculously costless to the community, and the more the better. What it argues is simply that the net budgetary costs of subsidies to artistic activities are considerably lower than appears at first glance; that the economic impact in terms of local expenditure, income distribution consequences, and capital requirements are more favourable than in many other government programs; and that the results for direct job creation are likely to be positive. Thus, where there are responsibly-managed cultural activities of substantial artistic merit, the case for public support is strong and the real economic costs are likely to be low. Indeed the stimulus to economic activity would be welcome.

REFERENCES

1. Dianne Seiffert, The Arts in Metropolitan Washington: Some Preliminary Data on Economics, Financing and Organizations. The Washington Regional Arts Project. (Washington D.C., December 1977), p. 10.

2. David Cui et al, Economic Impacts of Arts and Cultural Institutions: A Model for Assessment and a Case Study in Baltimore. (The Centre for Metropolitan Planning and Research, John Hopkins University, October 1977), p. 14.

3. James Copeland, "The Arts: Vital Economic Reactors in the Community", Theatre Communications Group Newsletter. (Vol. V, No. II, New York, November, 1977) p. 9.

4. Copeland, p. 9.

5. The Report of the Governor's Task Force on the Arts and Humanities. The Arts: A Priority for Investment. (Commonwealth of Massachusetts, 1973).

6. For further discussions also see:

   Report of the Mayor's Committee on Cultural Policy. (New York, 1974) p. 7-10, and

   David Cui et al, Economic Impacts of Arts and Cultural Institutions. (Baltimore, 1977), p. 21-24.

7. Derived from an interview with an official from the Ministry of the Provincial Secretary.

8. Derived from an interview with an official from the Minstry of Finance.

Appendix A.1

Payments and Revenues as a Percentage of Total Expenditure
For Ten Largest Art Organizations in B. C., 1976-77 to 1980-81.

	1976-77	1977-78	1978-79	1979-80	1980-81
Payments to individuals	63.1	63.4	64.7	64.2	63.9
Payments to governments	2.6	2.5	2.7	2.7	2.7
Payments for goods and services	34.2	34.2	32.5	33.1	33.4
Earned revenue	40.6	37.8	39.0	38.8	38.7
Government grants	45.0	42.3	43.7	43.9	43.7
Donations	12.0	11.5	15.2	17.0	17.1
Total Revenue	97.7	91.6	97.9	99.7	99.5
Surplus/Deficit	(2.3)	(8.4)	(2.1)	(0.3)	(0.5)

*Estimate

**Projected

Source: Tabulations from completed questionnaires and Cultural Services Branch files.

Appendix A.2

Payments and Revenues as a Percentage of Total Expenditure
For Twelve Intermediate Size Art Organizations in B. C., 1976-77 to 1980-81.

	1976-77	1977-78	1978-79	1979-80	1980-81
Payments to individuals	73.3	68.3	69.1	69.0	69.6
Payments to governments	2.8	3.1	3.2	3.2	3.2
Payments for goods and services	23.9	28.6	27.7	27.8	27.3
Earned revenue	55.3	58.1	55.1	53.3	53.0
Government grants	36.3	35.4	36.4	37.9	37.7
Donations	6.8	6.7	7.7	8.5	9.2
Total Revenue	98.4	100.1	99.2	99.6	99.9
Surplus/Deficit	(1.6)	0.1	(0.8)	(0.4)	(0.1)

*Estimate

**Projected

Source: Tabulations from completed questionnaires and Cultural Services Branch files.

APPENDIX B

ECONOMIC IMPACT MULTIPLIERS		
Value of Multiplier	Type of Multiplier	Study
2	Regional economic multiplier	Arts in Metro Washington, 1975
2.22	Economic multiplier	Economic Impact of San Francisco Ballet, 1978
2.4	Economic multiplier	The Impact of Artistic and Cultural Activities on Connecticut's Economy, 1975
2.5	Economic multiplier	Guthrie Theatre Study, Minneapolis-St. Paul, 1976
2.5	Economic multiplier	Cultural Resources Council, News Release, Syracuse, N.Y., August, 1978
2.5	National economic multiplier	The Impact of the Broadway Theatre on the Economy of New York, 1977
2.5 - 3.0	Provincial economic multiplier	Expenditure of Festival Parties and Economic Impact Upon City of Stratford, Ontario
3.0	Regional economic multiplier	Economic Impact of Centre for Music, Drama and Arts, Lake Placid, N.Y., 1973

APPENDIX C

	Calculations of Taxes Paid to Various Levels of Government, 1977-78.			
			Amount Accruing to	
		Estimated tax rate*	Provincial	Municipal and Federal
Payments to individuals	$8,355,973	11.16% Federal** 3.29% Provincial	$274,912	$932,527
Direct payments to Government	341,435	100%		341,435
Payments for goods and services	4,232,642	3.5%	148,142	
Audience expenditures	10,292,100	3.5%	360,224	
Taxes paid by organizations sampled			$783,278	$1,273,962
Total taxes paid by all organizations***			$979,097	$1,592,452

*Rates of taxation on income were computed using 1976 Revenue Canada Taxation Statistics for self-employed entertainers and artists in Canada who collectively earned average wages of $11,427 in 1976.

All goods and services associated with attendance are not subject to Provincial sales taxes. Hotel rooms and liquor purchases were taxed at a rate of 7 percent and gasoline is taxed at 17¢ per gallon.
According to survey data, the commodities represent approximately half of audience expenditures. To yield an approximate Provincial taxation figure, a levy of 3.5 percent of total audience spending was applied.

**Figure includes income, CPP and UIC tax.

***Using a scale factor of 1.25.

BIBLIOGRAPHY

ECONOMIC IMPACT STUDIES

A. Canadian Art Impact Studies.

Baird, Nini. The Arts in Vancouver: A Multi-Million Dollar Industry. Vancouver, 1976.

This study attempts to illustrate the impact of the arts industry in Vancouver in recent years. In a qualitative manner, the report looks at the relationship of the arts to tourism, education, business and the general enhancement of Vancouver.

Book, Sam. Economic Aspects of the Arts in Ontario. Ontario Arts Council, 1972.

This study provides a detailed statistical profile of individual disciplines within the performing and visual art sectors in Ontario for the 1971-72 period. Five categories - output, attendance, expenditures, revenues and prices - are used to summarize the economic characteristics of the organizations. Considerations such as who participates, who is employed, performance costs per person, audience reach and expenditure impacts are discussed. Although business and consumer outlays related to the arts and secondary and tertiary effects of initial rounds of spending are not measured, the study does ascertain that $37 million in direct expenditures were spent in 1971-72 by Ontario art organizations.

Urwick, Currie and Partners Ltd. An Assessment of the Impact of Selected Large Performing Companies Upon the Canadian Economy. The Canada Council, Ottawa, 1974.

The study assesses the cultural and economic impact of three large performing art organizations- the Royal Winnipeg Ballet, the Toronto Symphony and the Théâtre du Nouveau Monde. It evaluates operating expenditures and revenues, analyses grants and assesses direct and indirect tax receipts. Finally, government grants are related to the economic return of the activities.

Vancouver Board of Trade. Committee on Business and the Arts.
"Abstract of the Report and Recommendations - Report to Vancouver City Council",
December, 1977.

In an attempt to make business more aware of the role of arts, this report illustrates some of the tangible benefits accruing to the Vancouver community. It estimates business benefit significantly from art activities ($18-25 million annually). Then in a non-quantifiable manner, the report suggests that such intangible benefits as enrichment of life and attraction of business occur because of the presence of arts in Vancouver.

B. U. S. Art and Cultural Impact Studies.

Cui, David; Lyall, Katherine. Economic Impacts of Arts and Cultural Institutions: A Model for Assessment and a Case Study in Baltimore. The Centre for Metropolitan Planning and Research, John Hopkins University. Baltimore, Maryland. October 1977.

This excellent study provides both a model to measure the economic impacts of art activities and cultural institutions on their communities and a case study application of the model to eight institutions in Baltimore. The model employs 30 equations to determine a variety of direct and secondary effects (positive and negative) on business, local government and individuals. It describes in detail the structure of the equations comprising the model indicating data sources and alternative strategies, reviews other impact studies and cites major caveats regarding the use of such studies. The report describes the Baltimore economy and its arts community, summarizes the results of the quantitative calculations and discusses the role of arts in economic development and executive recruitment.

Greater Philadelphia Cultural Alliance. A Comparative Study of the Vital Statistics of Some of Philadelphia's Major Cultural Organizations. Philadelphia, 1977.

The study found that local cultural institutions had a substantial economic impact on the city of Philadelphia. It illustrated that cultural organizations add immeasurably to city pride, identity, spirit and uniqueness. Finally the survey presented an overview of the collective change over a three-year period in the financial situation of the local institutions.

Massachusetts Governor's Task Forces on the Arts and Humanities. The Arts: A Priority for Investment. Boston, May 1973.

The report found that arts in Massachusetts are important to the quality of life and the generation of tourism and business. It concludes that the arts attract new residents, tourists and industry - all of which are essential to the state's economy and livelihood. In addition, the report indicates how the arts provide educational, entertainment and cultural opportunities and a multitude of services to the people. The latter half of the report assesses the current economic condition of 285 non-profit art organizations and their overall impact on the economy.

Mathtech Inc. The Impact of the Broadway Theatre on the Economy of New York City. New York, N. Y. 1977

This study estimates the impact of Broadway theatre on the earnings of closely related business activities. The analysis is based on a period of time in 1975 when some theatres were closed as a result of a strike. To determine the total economic impact of the industry, actual theatre expenditures and costs associated with attendance were assessed. A national multiplier of 2.5 and a local multiplier of 1.6 were used and the study concludes that theatre in New York City stimulates income and employment in excess of $250 million annually. Alternative methods of estimating economic impacts are presented in the study.

Netzer, Dick. The Subsidized Muse: Public Support for the Arts in the United States. New York, 1978.

Although the book is primarily concerned with evaluating the effects of public support of the arts in the U. S., there is some discussion related to economic equity and efficiency considerations - for government support of the arts. Support based on external benefits accruing from art activities is also briefly discussed. This rationale focuses on factors such as the effect arts have on preserving cultural heritage, generating incomes, stimulating economic development and fostering tourism.

Office of Arkansas State Arts and Humanities. The Arts are for Everyone.

This is a short article that depicts the arts as an important economic asset to Arkansas. It concludes that the state profits directly from dollars spent on salaries, facilities, and the number of people employed. To calculate the cultural communities' total economic impact, the amount spent on salaries was multiplied by 2.5.

Oregon Arts Commission. Articulture and the Eugene-Springfield Area: Survey of Public Opinion and Art Organizations. Eugene, Oregon, 1976.

This short study includes a brief qualitative discussion of the economic impact of art activities in the Eugene-Springfield area. It also provides some measure of the cost of dining out associated with attendance at art events.

Report of the Mayor's Committee on Cultural Policy. New York, N. Y. October, 1974.

This report discusses the impact of cultural activity on the economy of New York City. It outlines the effect cultural activities have on tax revenues, tourism, the attraction and retention of business, and the stabilization and strengthening of real estate values and development. Finally, it depicts some of the social and educational benefits of cultural activity.

Theatre Communications Group. "Newsletter" Volume V, No. II. November, 1977, New York, N. Y.

This terse article, which reviews recent U. S. studies, shows that art activities have generated considerable economic impacts on their surroundings.

Seiffert, Dianne. The Arts in Metropolitan Washington: Some Preliminary Data on Economics, Financing and Organizations. The Washington Regional Arts Project, Washington, D.C., December, 1977.

The report presents some preliminary data on the arts industry to ascertain its economic significance in stimulating the local and regional economy. Data on the income and expenditure of fifteen organizations is presented and then the report proceeds to discuss various methods of increasing financial support for the arts.

Wassell, Gregory H.; Sullivan, John J. "The Impact of Artistic and Cultural Activities on Connecticut's Economy". The New England Journal of Business and Economics, Vol. 4, No. 1, Fall 1977.

C. Other Impact Studies.

Canadian Outdoor Recreation Research Committee. The Economic Impact of Parks. Ottawa, 1975.

This study reviews estimates of multipliers used in assessing the impact of park expenditures in Canada and the U. S. None of the estimates was derived using input-output models, but rather various surveys were conducted to generate data. Multipliers were generally low, usually in the vicinity of 1.1.

Masse, William D. The Socio-Economic Importance of Outdoor Recreational Resources in Northwestern British Columbia: The Sport Fisheries in the Stewart-Cassiar Area. Environment Canada, Fisheries and Marine Services. Vancouver, 1976.

This study determines the impact of outdoor recreation expenditures on income in Northwestern B. C. It hypothesizes that the ultimate impact of expenditures on incomes is dependent on two factors - the size of the local income component and the size of the income multiplier. The local income component is estimated at 30 percent of gross expenditures. The multiplier, based on other studies, is estimated to be 1.35.

Pearse, Peter; Laub, Michael. The Value of the Kootenay Lake Sport Fishery. Study Report #3, British Columbia Fish and Wildlife Branch, Victoria, 1969.

and

Pearse Bowden Economic Consultants Ltd. The Value of Non-Resident Sport Fishing in British Columbia. Study Report #4. British Columbia Fish and Wildlife Branch, Victoria, 1970.

In these studies, multipliers are developed to determine the effect of spending on local income and employment.

BIBLIOGRAPHY

Baumol, Wm. J.; Bowen, Wm. G. Performing Arts - The Economic Dilemma, Twentieth Century Fund, Inc., Hartford, Connecticut, 1966.

Book, Sam. Economic Aspects of the Arts in Ontario, Ontario Arts Council, Toronto, 1972.

Brice, Max O. The Group of 29 Revisited, Secretary of State, Ottawa, 1977.

Cultural Resources Council. "Civic Centre News Release", Syracuse, N. Y. 1978 (news release on culture and business, August 22, 1978).

Greater Philadelphia Cultural Alliance. A Comparative Study of the Vital Statistics of Some of Philadelphia's Major Cultural Organizations, Philadelphia, 1977.

Minneapolis Area Chamber of Commerce and Guthrie Theatre. "The Guthrie Theatre's Economic Impact", Minneapolis, 1977 (unpublished report).

Moore, Thomas G. The Economics of the American Theatre, Durham, N. C., 1968.

National Research Centre of the Arts Inc. Arts and the People: A Survey of Public Attitudes and Participation in the Arts and Culture in N. Y. State, New York, 1973.

Pasquill, Frank T. Subsidy Patterns for the Performing Arts in Canada, Canada Council, Ottawa, February, 1973.

Province of Ontario. "Expenditures of Festival Parties and Economic Impact Upon City of Stratford", Toronto.

Revenue Canada. Taxation Statistics, Ottawa, 1978.

San Francisco Ballet. "Economic Impact of the San Francisco Ballet on San Francisco", San Francisco, 1978 (news release).

Sullivan, M. C. The Group of 29, Canada Council, Ottawa, October, 1973.